

Message Text

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E.O. 11652: GDS

TAGS: OVIP (SIMON, WILLIAM)

SUBJECT: SECRETARY SIMON'S MIDDLE EAST TRIP

1 FOLLOWING IS DRAFT STRATEGY PAPER PREPARED FOR
SECRETARY SIMON'S VISIT TO ISRAEL, ON WHICH WE WOULD
APPRECIATE YOUR COMMENTS AND RECOMMENDATIONS:

2. BEGIN TEXT: SECRETARY SIMON'S STOP IN ISRAEL IS
PARTLY POLITICAL IN PURPOSE: TO DEMONSTRATE THAT THE
ATTENTION WE ARE GIVING TO OUR NEW ECONOMIC RELATIONSHIPS
WITH ISRAEL'S ARAB NEIGHBORS IN NO WAY SIGNIFIES A
DIMINUTION IN OUR CONCERN FOR ISRAEL'S REQUIREMENTS. IT
SHOULD CONSTITUTE A FURTHER ASSURANCE OF OUR SERIOUSNESS
OF INTENT TO FOLLOW THROUGH EXPEDITIOUSLY IN IMPLEMENTING
THE JOINT US-ISRAEL STATEMENT OF JUNE 17. SECRETARY
SIMON'S OWN PERSONAL ATTITUDES OF SYMPATHY AND UNDER-
STANDING WILL BE VERY IMPORTANT IN THESE RESPECTS. HIS
VISIT WILL SERVE IMPORTANT ECONOMIC PURPOSES AS WELL.
IT WILL ENABLE HIM TO MEET THE TOP OFFICIALS OF THE NEW
ISRAELI GOVERNMENT, TO SEE SOMETHING FIRST HAND OF THE
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COUNTRY AND ITS PROBLEMS AND WHAT OUR ROLE SHOULD BE IN
MEETING THEM. CURRENTLY ISRAELI EXPECTATIONS OF FUTURE
US AID ARE HIGH. THE VISIT WILL ALLOW AN EFFORT TO

BRING THEM CLOSER TO REALITY, AND TO SUGGEST MEANS OF EXAMINING ISRAELI REQUIREMENTS IN A MORE SYSTEMATIC MANNER.

3. THE POLITICAL SCENE: THE SHOCK OF LAST OCTOBER'S WAR HAS STILL NOT WORN OFF IN ISRAEL. THE WAR DEMONSTRATED THE LIMITATIONS OF ISRAELI MILITARY POWER AND ISRAEL'S VIRTUAL ISOLATION IN THE WORLD--EXCEPT FOR THE UNITED STATES--IN ITS MOMENT OF PERIL. THE ENSUING SELF-EXAMINATION HAS BEEN PAINFUL AND IS REFLECTED IN A DOMESTIC POLITICAL TURBULENCE AND INSTABILITY UNPRECEDENTED IN ISRAEL'S HISTORY. NOW IT HAS A GOVERNMENT WITH REASONABLY GOOD POSSIBILITIES OF SURVIVING THROUGH THIS YEAR AND PERHAPS LONGER IF EVERYTHING GOES ITS WAY, BUT IT HAS A MAJORITY OF ONLY ONE IN THE 120 MEMBER KNESSET. PRIME MINISTER RABIN'S STRATEGY IS CLEARLY TO MAKE AN IMAGE AND A RECORD IN THE COMING MONTHS SUFFICIENTLY PLEASING TO THE ELECTORATE TO ENABLE HIM TO GO TO THE POLLS AT A MOMENT HE JUDGES PROPITIOUS AND WIN AN ENLARGED MANDATE. HE CAN MAKE THIS RECORD BY SUCCESSES ON THE PEACE FRONT; THE GOVERNMENT NOW CLEARLY INCLINES TOWARD TRYING FOR ANOTHER PARTIAL AGREEMENT WITH EGYPT. HE CAN MAKE IT BY PROGRESS IN MEETING ISRAEL'S SOCIAL AND ECONOMIC PROBLEMS, INFLATION (PERHAPS 40 PER CENT THIS YEAR), HOUSING SHORTAGES, A SENSE OF DISCRIMINATION FELT BY THE COUNTRY'S ORIENTAL JEWISH MAJORITY. HE CAN MAKE IT MOST DRAMATICALLY BY COPING SUCCESSFULLY WITH THE PROBLEM OF ARAB SUICIDE SQUADS OPERATING FROM LEBANON INTO ISRAEL, SURELY THE MOST EMOTIONAL ISSUE IN ISRAEL TODAY.

4. IN ALL OF THE ISRAELI GOVERNMENT'S CALCULATIONS THE POSITION OF THE UNITED STATES IS CENTRAL. IN SPITE OF AMERICAN SUPPORT OF ISRAEL FOR OVER TWENTY-FIVE YEARS THERE REMAINS AN AMBIVALENT STRAIN IN ISRAELI ATTITUDES TOWARDS US. OUR SUPPORT IS APPRECIATED AND OPENLY ACKNOWLEDGED. THERE IS ESPECIAL GRATITUDE FOR OUR HELP DURING THE OCTOBER WAR AND FOR OUR GENEROUS

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FINANCIAL AND MILITARY HELP SINCE. IN SPITE OF SOME GRUMBLING FROM THE RIGHT WING OPPOSITION IN ISRAEL THERE IS GENERAL SATISFACTION WITH THE DISENGAGEMENT AGREEMENTS IN WHICH THE UNITED STATES PLAYED SUCH A KEY ROLE. VEXING WARS OF ATTRITION ON THE EGYPTIAN AND SYRIAN FRONTS HAVE STOPPED, ISRAELI POWS ARE BACK, THE RESERVES HAVE BEEN LARGELY DEMOBILIZED, THERE IS SOME BREATHING ROOM.

5. BUT, PERHAPS, BECAUSE OF THEIR SUDDEN AWARENESS OF THE FULL EXTENT OF THEIR DEPENDENCE ON US, ISRAELIS NEVER CEASE

TO WORRY ABOUT AMERICAN INTENTIONS. THEIR NEED FOR REASSURANCE IS ENDLESS, AND EVERY MOVE BY US IN OUR RELATIONSHIP IS READ CAREFULLY FOR SIGNS OF A SHIFT IN OUR POLICIES. THEY KNOW, HOWEVER, THAT IF THEY NEED US, WE NEED THEM, AS AN ESSENTIAL PARTNER IN THE MIDDLE EAST PEACE SCARCELY LESS IMPORTANT FOR US THAN FOR THEM. IN THE EXTREMELY CLOSE RELATIONSHIP THAT HAS DEVELOPED BETWEEN US IN RECENT YEARS THE ISRAELIS ARE NOT WITHOUT THEIR OWN POTENT LEVERAGE, AND THEY KNOW IT.

6. ISRAEL'S ECONOMY AND U.S. AID

ISRAEL'S ECONOMY IS BASICALLY STRONG AND HEALTHY: FULL EMPLOYMENT, GOOD FOREIGN EXCHANGE RESERVES (ONLY 15 PER CENT BELOW THEIR RECORD HIGH), A GROWTH RATE OF PERHAPS 8 PER CENT THIS YEAR. IT HAS A NASTY INFLATION PROBLEM, PERHAPS 40 PER CENT THIS YEAR, THOUGH INFLATION'S POLITICAL AND LABOR RELATIONS EFFECTS ARE MITIGATED BY EXTENSIVE LINKING OF PRICES TO WAGES AND OTHER INCOME PAYMENTS.

7. THE OVERHEATING OF THE ECONOMY STEMS FROM INTENSIVE EFFORTS TO FULFILL THE CENTRAL PURPOSES OF THE JEWISH STATE: ITS VIABILITY AGAINST ITS NEIGHBORS, AND THE IN-GATHERING OF JEWS, PARTICULARLY FROM THE SOVIET UNION (35,000 LAST YEAR). THESE OBJECTIVES ARE AT THE HEART OF ZIONIST PURPOSE. ALTHOUGH THE HEAD OF THE CENTRAL BANK HAS BEEN URGING FOR MANY MONTHS FOR FISCAL RESTRAINT AND A GENERAL SCALING BACK OF GOVERNMENT ACTIVITY, THE POLITICAL POLICYMAKERS ARE UNMOVED. THEIR ALTERNATIVE IS TO SEEK ADDITIONAL FOREIGN AID FROM THE UNITED STATES, THE ONLY POTENTIAL POOL OF AID CAPABLE OF LARGE EXPANSION.

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8. THE UNITED STATES HAS PROVIDED AID TO ISRAEL SINCE ITS INDEPENDENCE, THOUGH GRANT AID STOPPED IN THE EARLY SIXTIES AND BY THE MID-SIXTIES THERE WAS ONLY ABOUT DOLS 30 MILLION ANNUALLY IN PL 480 CREDITS. BEGINNING IN 1970 WE MADE A QUANTUM JUMP WITH AID, ALMOST ENTIRELY CREDITS, RUNNING A HALF BILLION ANNUALLY. THE SPECIAL CIRCUMSTANCES OF THIS FISCAL YEAR HAVE TAKEN THE TOTAL TO DOLS 2.7 BILLION, OF WHICH ABOUT DOLS 1.6 BILLION IS GRANT.

9. NOW THE ISRAELIS ENVISAGE ANOTHER QUANTUM JUMP IN NORMAL YEARLY AID. ISRAELI DEFENSE MINISTER PERES, IN MEETINGS WITH THE PRESS IN WASHINGTON IN JUNE, SAID THAT ISRAEL WOULD NEED ABOUT DOLS 1.5 BILLION IN US AID FOR EACH OF THE COMING FIVE YEARS TO MEET ITS DEFENSE REQUIREMENTS. IN DISCUSSIONS IN DOD AND STATE HE PAINTED A GLOOMY PICTURE OF GROWING ARAB MILITARY MIGHT OVER THE NEXT TEN YEARS AND

DESCRIBED THE EXTENSIVE MEASURES ISRAEL MUST TAKE TO COPE WITH THIS THREAT. NO COMMITMENTS REGARDING LONG-TERM AID

WERE MADE TO PERES WHILE HE WAS HERE, THOUGH IN CONSONANCE WITH THE SPIRIT OF THE JUNE 17 JOINT STATEMENT, HE WAS GIVEN A SYMPATHETIC HEARING, WHICH HE FOUND ENCOURAGING. WE MAY ANTICIPATE THAT THE ISRAELIS WILL TAKE FULL ADVANTAGE OF SECRETARY SIMON'S VISIT TO PRESS MORE CONCRETELY THEIR CASE FOR EXTRAORDINARY, LONG-TERM AID.

10. THE IMMINENCE OF NEW, LARGE ISRAELI AID REQUESTS MAKES MORE IMPERATIVE THE ESTABLISHMENT OF A MECHANISM FOR MORE RIGOROUS EXAMINATION OF THESE REQUESTS. HISTORICALLY, THE ISRAELIS HAVE GIVEN US EACH YEAR AN INFORMAL PAPER PROJECTING THEIR BALANCE OF PAYMENTS FOR THE COMING YEAR. THESE PAPERS HAVE SHOWN THE MAGNITUDE OF THE BALANCE OF PAYMENTS GAP, BUT HAVE LEFT TO ITS READERS TO CONCLUDE PRECISELY HOW THAT GAP SHOULD BE FILLED. FINAL DECISIONS ON FMS AND SA HAVE NOT IN THE PAST BEEN REACHED ON THE BASIS OF ANY RIGOROUS ANALYSIS OF BALANCE OF PAYMENTS REQUIREMENTS. ISRAEL'S FOREIGN EXCHANGE RESERVES QUADRUPLED IN THE PERIOD 1970-73.

11. ISRAELI OBJECTIVES:

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TO GET TO KNOW BETTER SECRETARY SIMON'S VIEWS AND POLICIES AS THEY AFFECT ISRAEL, AND TO ASSURE HIS PERSONAL UNDERSTANDING AND SYMPATHY FOR ISRAEL'S PROBLEMS.

TO CONVINCE SECRETARY SIMON OF ISRAEL'S NEED FOR EXTRAORDINARY U.S. FINANCIAL ASSISTANCE, WITH A LARGE GRANT COMPONENT, OVER THE COMING YEARS.

TO CONVEY TO SECRETARY SIMON ISRAELI IDEAS ON CARRYING OUT THOSE PARTS OF THE JOINT STATEMENT IN WHICH HE WOULD HAVE AN INTEREST, AND TO SEEK HIS REACTION:

-- "THE PRESIDENT AND THE PRIME MINISTER...AGREED TO STRENGTHEN AND DEVELOP THE FRAMEWORK OF THEIR BILATERAL RELATIONS. THE PRIMARY GOAL WILL BE TO ESTABLISH A FIRMER AND MORE CLEARLY DEFINED STRUCTURE OF CONSULTATION AND COOPERATION. WHERE APPROPRIATE THEY WILL SET UP SPECIAL BI-NATIONAL COMMITTEES."

--"THE UNITED STATES GOVERNMENT WILL ENCOURAGE VENTURES BY AMERICAN ENTERPRISES AND PRIVATE INVESTMENT IN ISRAEL DESIGNED TO INCREASE ISRAEL'S ECONOMIC GROWTH, INCLUDING IN THE FIELDS OF INDUSTRY, POWER AND TOURISM. THEY AGREED TO BEGIN IMMEDIATELY NEGOTIATIONS FOR CONCRETE ARRANGEMENTS TO IMPLEMENT SUCH POLICY, INCLUDING IN THE AREA OF AVOIDANCE OF DOUBLE TAXATION."

12. TO EXPLORE MEANS OF FACILITATING THE PLACEMENT OF

ISRAELI DEBT IN AMERICAN CAPITAL MARKETS. THE ISRAELIS SAY THEY HAVE LATELY DISCERNED INCREASING HESITANCY AMONG POTENTIAL AMERICAN LENDERS TO LEND TO ISRAEL BECAUSE OF WHAT THESE LENDERS SENSE AS A SHIFT IN AMERICAN POLICY AWAY FROM ISRAEL TOWARD THE ARABS. ISRAEL WANTS A MORE ACTIVE USG ROLE TO COUNTER THIS TENDENCY.

13. TO IMPRESS ON SECRETARY SIMON THE HEAVY FOREIGN DEBT BURDEN ISRAEL CARRIES, AND ITS IMPLICATIONS FOR FUTURE LEVELS OF DEBT SERVICE. ISRAEL'S DEBT SERVICE/EXPORTS EARNINGS RATIO IS NOT WORSE THAN IT WAS A DECADE AGO, BUT THE OVERALL DEBT IS LARGE, AND IT IS POSSIBLE THAT

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ISRAEL WILL SEEK MEANS OF RELIEVING THAT PART OF THE BURDEN WHICH IS U.S. DEBT BY A REPAYMENT STRETCH-OUT, ASSURANCES OF BETTER TERMS ON NEW LOANS OR SOME OTHER MEANS.

14. THE SECRETARY'S OBJECTIVES:

TO ASSURE ISRAEL OF OUR INTENTION TO PRESS FORWARD WITHOUT DELAY IN THE FULL IMPLEMENTATION OF THE JOINT STATEMENT.

TO DRAW FROM THE ISRAELIS, WITH AS MUCH SPECIFICITY AS POSSIBLE, HOW THEY SEE THE IMPLEMENTATION OF THE ECONOMIC PORTIONS OF THE STATEMENT.

TO IMPRESS ON THE ISRAELIS OUR BUDGET AND ECONOMIC FACTS OF LIFE AND THUS OUR NEED TO HAVE FROM THEM HARD, CAREFULLY COMPILED DATA PERTINENT TO OUR EXAMINATION OF THEIR AID REQUIREMENTS. THIS IS ESSENTIAL IF THESE REQUESTS ARE TO SURVIVE CONGRESSIONAL SCRUTINY. (HISTORICALLY, ISRAELI BALANCE OF PAYMENTS PROJECTIONS HAVE BEEN SPONGY, AND MAGNIFIED THE AMOUNT OF U.S. AID REQUIRED.)

TO PROPOSE THAT AN AD HOC U.S./ISRAELI WORKING GROUP BE ESTABLISHED TO EXAMINE THE ISRAELI AID PROJECTIONS ON A SYSTEMATIC BASIS SO AS TO ARRIVE AT AN AGREED BASE WHICH COULD BE PRESENTED TO CONGRESS WITH A BETTER CHANCE OF SUCCESS THAN NOW APPEARS LIKELY. ISRAEL MUST MAKE THE MOST CONVINCING CASE POSSIBLE.

TO EXTRACT FROM THE ISRAELIS THEIR THINKING ABOUT HOW BROADENED COOPERATION IN STIMULATING PRIVATE INVESTMENT CAN BE MADE A TRULY TWO-WAY STREET; E.G., WHAT MEASURES IS ISRAEL READY TO TAKE TO STIMULATE U.S. PRIVATE INVESTMENT IN ISRAEL?

TO ASCERTAIN FROM THE ISRAELIS HOW THEY PLAN TO PROCEED IN DAMPING DOWN THEIR SERIOUS INFLATION. SISCO

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